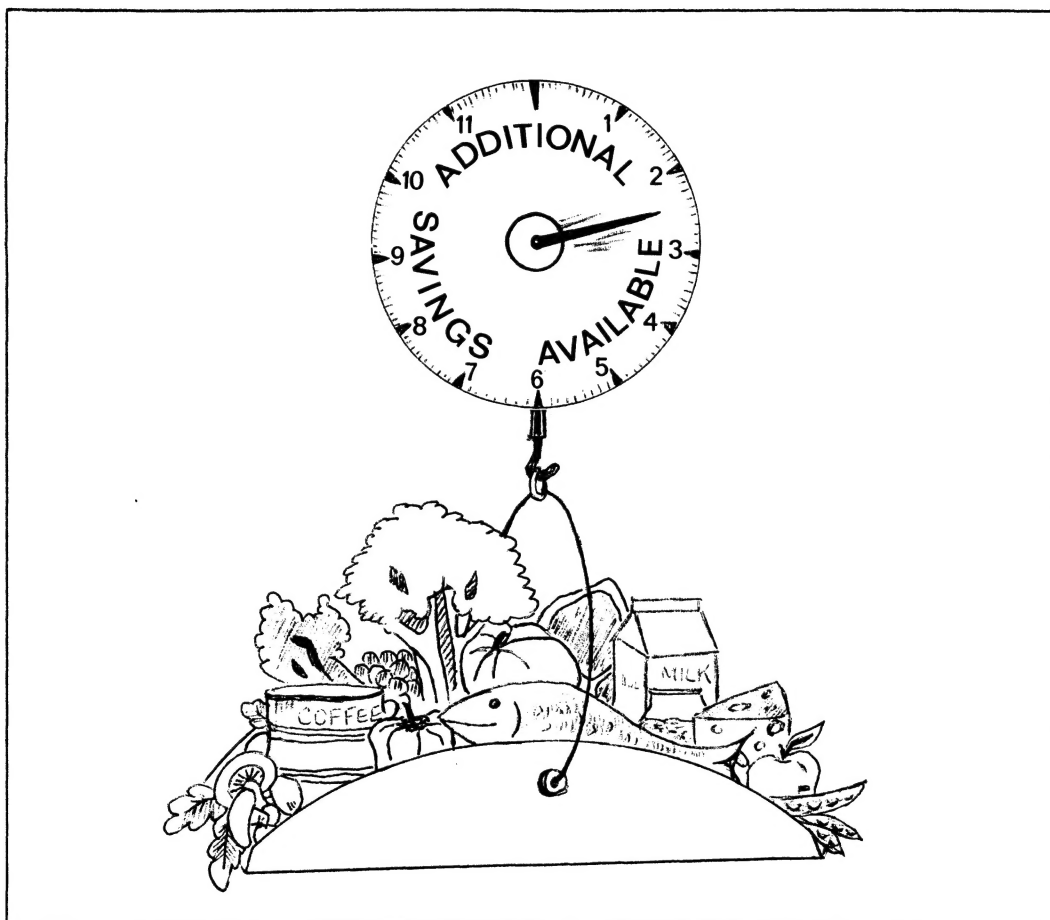




Joint Legislative Audit Committee
Office of the Auditor General



REPORT TO THE CALIFORNIA LEGISLATURE



A REVIEW OF FOOD PROCUREMENT PROCEDURES

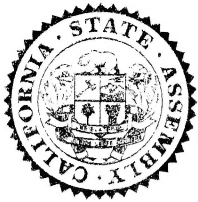
Office of the Auditor General
1955-1978

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

719

STATE FOOD PROCUREMENT PRACTICES
NEED IMPROVEMENT

APRIL 1978



Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature



CHAIRMAN
MIKE CULLEN
LONG BEACH

MIKE CULLEN
CHAIRMAN

VICE CHAIRMAN
ALBERT RODDA
SACRAMENTO

ASSEMBLYMEN
DANIEL BOATWRIGHT
CONCORD

SENATORS
PAUL CARPENTER
CYPRESS

EUGENE A. CHAPPIE
ROSEVILLE

GEORGE DEUKMEJIAN
LONG BEACH

LEROY GREENE
SACRAMENTO

NATE HOLDEN
LOS ANGELES

April 4, 1978

719

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report on food procurement procedures of various state agencies including school districts and the University of California. Federal, state and local government appropriations bear the cost. Recommendations for cost-saving practices have been well received by the agencies and are being implemented.

By copy of this letter, the agencies are requested to advise the Joint Legislative Audit Committee within sixty days of the status of implementation of the recommendations of the Auditor General that are within the statutory authority of the agencies.

The auditors are Kurt R. Sjoberg, Audit Manager; Dennis L. Sequeira; Ronald R. Franceschi; and Allison G. Sprader.

Cordially,

MIKE CULLEN
Chairman

SUMMARY

Food is purchased by a number of governmental agencies within the State of California. The Department of General Services is responsible for purchasing food supplies in excess of \$100 for most state agencies. The University of California is excluded from state procurement guidelines, and local school districts buy food directly.

We examined the food procurement programs of the Department of General Services, the University of California and a sample of school districts. Our review of the Department of General Services included an examination of the food programs at selected state institutions. We concentrated on the effectiveness of each agency's food purchasing programs and reviewed: laws and policies pertaining to food procurement, procurement methods used, bidding procedures and evaluation methods, and specifications.

We identified the following problem areas which limit the effectiveness of each agency's food procurement program.

Department of General Services

Present procurement procedures used to buy canned fruits and vegetables are not cost-effective (see page 11).

Bids are not solicited for some competitive food items, thus eliminating potential savings obtained through competition (see page 16).

Insufficient justification is kept when delegating purchasing authority to other state agencies (see page 17).

Present coffee blend and packaging requirements are too restrictive and may limit competition (see page 19).

State Institutions

The majority of institutions reviewed do not verify all food invoices to ensure that prices being charged are in accordance with the provisions of the contract (see page 25).

Institutions are not taking full advantage of the Federal Donated Commodity Program which offers food items at substantially reduced prices (see page 27).

University of California

One method used to evaluate bids may not always result in the selection of the true low bidder (see page 31).

Price solicitations are made contrary to UC guidelines (see page 33).

Multiple bid awards are made to other than the low bidder even when there are substantial price differences between vendors (see page 35).

Food commodities are purchased without sufficient competition to assure that UC is obtaining the lowest price (see page 37).

Vendors are not required to substantiate price increases for items on UC supply agreements (see page 38).

School Districts

Purchasing methods used by various districts are deficient and hinder the effectiveness of their food procurement programs (see page 41).

Over 75 percent of the districts contacted had no written procedures for food procurement. This is contrary to California statutes (see page 44).

Although cooperative purchasing programs have been beneficial for some school districts, this method has not been widely used (see page 46).

On pages 23, 30, 39 and 51 we make specific recommendations to improve food procurement within the State.

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have examined the food procurement systems of state and state-supported agencies. This examination was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

We reviewed the food procurement programs of the Department of General Services, the University of California and a sample of school districts. Food purchased by these agencies is used to provide meals at correctional facilities, state hospitals, various state schools and other state institutions; at University of California (UC) student residence halls and other UC campus food service facilities; and at individual public schools within the districts.

Department of General Services

The Department of General Services' Office of Procurement is responsible for purchasing food supplies in excess of \$100 for most state agencies. Government Code Section 14790 excludes all purchases by the University of California, and those purchases by the California State Colleges not exceeding \$1,000. Through a centralized procurement system, the Office of Procurement purchases or supervises the purchase of all food supplies for the remaining state agencies.

- Establishing two-way communication on the effect of changed market conditions on food selection for institutions.

University of California

The University of California, which is exempt from the statutes in the Government Code relating to purchasing, establishes the policies by which all campuses are to purchase materials and supplies. Each campus purchases its own supplies directly except for those supplies included in university-wide purchase agreements. Of the nine UC campuses, six have their own programs to feed students, while three contract their food operations to private companies.

UC policy requires that all purchases in excess of \$2,500 be secured by competitive bid. For all purchases under \$2,500, competitive quotations are to be secured if they would be advantageous to the University.

During fiscal year 1976-77, the six campuses with their own food operations spent an estimated \$10.2 million on food. Of this amount, UC estimates that \$49,000, or less than one percent, was financed from state general funds. Most food is purchased through food agreements established by each campus for various periods of time.

The UC currently is revising its procurement policies as a result of Senate Bill 963. This legislation, which became effective January 1, 1978, requires the UC to formally offer for bid all purchases of more than \$5,000.

School Districts

Each school district is mainly guided by its own policies and procedures for food procurement. The State has few guidelines on how school districts are to purchase food. Section 39873 of the Education Code states that:

Perishable foodstuffs and seasonal commodities needed in the operation of cafeterias may be purchased by the school district in accordance with rules and regulations for such purchase adopted by the governing board of said district notwithstanding any provisions of this code in conflict with such rules and regulations.

For all other food commodities each school district is required, under Section 39640 of the Education Code, to submit to competitive bidding any contract involving an expenditure of more than \$12,000.

Food procurement procedures vary widely among the school districts we reviewed. Some school districts have written guidelines while other districts have no guidelines regarding food procurement. Some school districts seek competitive bids for all food purchases, while others only obtain competitive prices for selected items.

Under the State Child Nutrition Program, the State reimburses participating school districts for each nutritionally adequate meal served. For fiscal year 1976–77, the total state funds provided for this program through the Department of Education for local assistance to school districts and other entities was an estimated \$37 million. Of this amount, about \$15.5 million was spent for food; the balance was for other operating costs of food service programs.

Scope of Review

We reviewed the effectiveness and efficiency of each agency's food purchasing program. Specific areas reviewed included: laws and policies pertaining to food procurement, procurement methods used, bidding procedures and evaluation methods, and specifications.

Department of General Services

We examined the Office of Procurement's purchasing procedures for canned fruits and vegetables. We sent questionnaires to ten canners and suppliers requesting historical pricing data for selected food items. The vendors selected represented both present state suppliers and suppliers not currently participating in state business. This pricing data was then used to evaluate whether the State could obtain lower prices by changing the bidding procedure. In addition, we contacted five public entities for information regarding their purchasing procedures for canned fruits and vegetables and three private entities to obtain their

evaluation of the State's method. Twenty-eight private and public entities were contacted for information on the State's procurement procedures for other food items.

We also reviewed eight institutions within four state departments which obtain food items through the Office of Procurement to evaluate each institution's compliance with state procurement policies and the effectiveness of its present food program.

University of California

This review included three of the six UC campuses with their own food programs: Berkeley, Los Angeles and Riverside. These campuses were selected based on geographical proximity to state institutions which obtain food through the Office of Procurement to allow price comparisons between the UC and the state institutions for selected food items. In addition, we contacted five food vendors for information pertaining to UC food procurement procedures.

School Districts

We surveyed the food procurement practices of 128 school districts. We made on-site visits to 11 districts located in various parts of the State to evaluate their food procurement procedures. In Alameda and Los Angeles counties we evaluated two food cooperative purchasing programs through on-site visits and a survey of 17 districts. In addition, we conducted telephone surveys of 100 districts to obtain general information on food procurement procedures.

We also contacted four vendors for information regarding school districts' food procurement procedures.

Comparisons

To evaluate the effectiveness of the purchasing systems used by the Office of Procurement and the University of California, we compared prices between the two agencies. However, the specifications, terms and conditions for the majority of food items purchased by these two agencies varied widely. As a result, we did not compare the effectiveness of one agency's procurement system against the other's. School districts were not included in this comparison since the majority of districts visited for the purpose of evaluating their food procurement procedures were not in the same geographical area.

Therefore, each of the three agencies' food procurement programs is evaluated individually in this report.

AUDIT RESULTS

DEPARTMENT OF GENERAL SERVICES
FOOD PROCUREMENT PROCEDURES
NEED IMPROVEMENT

The State Office of Procurement has not purchased some food items in the most cost-effective manner, and certain departmental food procurement practices need revision. Our review of various procedures in the Office of Procurement indicates that:

- The canned food "booking bid" has not resulted in lower prices nor any greater assurance of a firm supply
- Bids have not been solicited for some competitive food items, thus eliminating potential savings obtained through competition
- Insufficient justification is kept when delegating purchasing authority to other state agencies
- Present coffee blend and packaging requirements are too restrictive and may limit competition.

Present Procurement Procedures
Used to Buy Canned Fruits and
Vegetables Are Not Cost-Effective

The State of California pays higher prices to reserve or "book" canned goods approximately six months before production begins, rather than buying in July or August when prices are generally lower.

The Office of Procurement devised its present "booking bid" procedures in 1974, after experiencing difficulty in obtaining canned fruits and vegetables which were then in short supply. Prior to that time, the State made quarterly purchases of canned goods, with drop shipments made to approximately 30 institutions throughout the State. The Office of Procurement found that these procedures did not provide a reliable supply of canned goods. Agency staff surveyed then-existing market conditions and determined that crop shortages were likely to continue "from two to five years." The Office of Procurement concluded that the State would be in a better position to obtain a supply under such conditions if it (1) purchased canned goods in greater annual quantities, and (2) awarded purchasing contracts well ahead of the packing season.

The booking bid concept which was developed is a method whereby companies receive an invitation for bid in January for products which will be packed in the late summer and early fall. Although bids are closed in January or February, the low bid evaluation is based on a "differential" amount rather than a fixed bid price. The differential is a unit amount, bid by each vendor, above or below a yet-to-be-developed average of canners' published list prices. The Office of Procurement computes the averaged canners' published list price at the conclusion of the pack or at the time contractors request authorization to ship, whichever occurs first. This average price plus or minus the low bidder's differential determines the product contract price.

Method of Purchase Is Not
Cost-Effective

The timing of the booking bid invitation and call for bids does not permit the State to obtain the lowest prices. Information provided by private canners and suppliers in response to our booking bid price survey indicates that changing the time of the call for bids from February to July or August, closer to the packing season, (1) could result in lower bid prices for the State, and (2) would not discourage vendors from bidding. We surveyed ten firms and requested information on what prices they would have bid for canned food items in July 1977. Our comparison of the price quotations received indicates that if the State had issued its bid invitation at that time, bid prices could have been from 3 to 47 percent below the booking bid prices, with the majority of price quotations more than 10 percent below.

Price comparisons of supplemental purchases made by the State demonstrate that the State would have paid approximately 13 percent more for these same items if they had been purchased at booking bid prices. The supplemental purchases we reviewed are interim purchases of food items, obtained through competitive bidding, and are made on an as-needed basis to maintain sufficient inventory levels between the normal booking bid delivery periods. These supplemental purchases call for the same item specifications and delivery requirements as those contained in the booking bid, but are typically in smaller quantities.

Our comparison indicates that booking bid unit prices were higher in 81 percent of the supplemental purchase price comparisons. If the State had purchased these items at booking bid prices, it would have paid approximately \$29,000 more.

Assurance of Obtaining
Supply Is Limited

The objective of the booking bid was "to assure a reliable supply of canned fruits and vegetables...at the lowest net cost to the State." However, even though the State is paying higher prices during normal harvest years, it is not receiving additional assurance of complete supply during crop shortages. The 1977 bid invitation states that "in the event...of a shortage...The contractor will be required to submit a written statement to the Office of Procurement certifying that the portion allocated to the State of California is representative of the allocation issued to all other customers." Thus there is no guarantee that the booking bid would enable the State to obtain the full quantities ordered.

Five of the eight companies responding to our inquiry concerning assurance indicated that the State would have at least the same ability to obtain canned goods if it sent bids during July.

Experiences of Other Governments

None of the 13 firms we contacted could identify any other governmental entities which presently reserve products approximately six months ahead of the packing season and establish prices in the same manner as the State. However, the Federal Government's Defense Personnel Support Center, which purchases all canned goods for the U.S. Military did attempt a "booking bid" procedure in 1974, but abandoned it after only one year. The Federal Government was unable to obtain any supply for 3 of 13 items ordered. Further, in seven instances the method resulted in higher weighted average unit prices by approximately 5.8 percent to 25 percent, while only one item resulted in a lower weighted average price of approximately 7.8 percent.

The State of Washington also purchases its canned goods on an annual basis just prior to the packing season. However, Washington's method of obtaining canned goods affords it greater flexibility in purchasing than California now has. For example, Washington requires that "all promotional discounts, early shipment discounts and volume discounts will be passed on to the State." Washington also calls for quarterly deliveries, but can take early delivery in any amount up to the full annual quantity ordered, if volume or promotional discounts are offered by vendors. Thus, Washington can obtain a year's supply at reduced prices, even after bids are awarded. Presently, California has no such provisions.

Substitution can be a more economical method of obtaining supply. Other government entities, such as the Los Angeles City Unified School District, purchase some products in greater quantities than the State, but substitute one product for another (e.g., canned peaches for canned pears) if one is in short supply.

Competitive Food Items Are
Purchased Through Price
Schedules Without Bid Solicitations

A price schedule is a vendor's price list issued in conjunction with a delegation of the central purchase authority; it is not a contract. Although state agencies are not required to purchase from price schedules, they are allowed to purchase items from them for amounts up to \$4,999.99. This limit does not include price schedules established with Correctional Industries for various food items they provide state agencies.

The State Administrative Manual Section 3531 states:

Price Schedules are established to facilitate direct ordering of primarily noncompetitive commodities by State agencies.

Many of the food commodities listed on state price schedules are competitive items. They are competitive with other food items not listed on price schedules and also with other items on price schedules from different vendors. Examples of such products include gravy mixes, spaghetti mixes and bakery supplies.

Since the State is committed to a program of competitive purchasing, we believe that not bidding these competitive food items is contrary to state procurement policy. We also believe that the State could realize cost savings by competitively bidding these items.

Office of Procurement officials have stated that these items are on price schedules because:

- (1) Specifications are difficult to write for these types of products
- (2) No acceptable brands list has been established for these items.

Although developing written specifications may be difficult for many of these items, we feel that an acceptable brands list could be established.

Changes Needed in the
Delegated Purchasing Program

Under the Departmental Delegation Program, the Office of Procurement authorizes departments or divisions to directly purchase selected commodities if specific needs exist. State departments requesting this authority are required to submit a justification supporting the need for the delegation, along with a departmental materials management plan. This data is then reviewed by the Office of Procurement to determine whether a delegation is needed.

Once a delegation is given, the Office of Procurement requires that specific guidelines be followed. One of these guidelines requires that all purchases of \$500 or more must be supported by at least two alternative price quotations. These price quotations are to be indicated on the file copy, except when the commodity to be purchased is proprietary. For orders less than \$500, the guidelines state that alternate sources should be considered where available.

No Justifications

The Office of Procurement files disclosed incomplete justifications for the nine departments or divisions delegated food procurement authority. We found only two partial justifications covering one of several divisions within a department which was given a delegation. One of these partial justifications was for fiscal year 1976–77 and the other was for fiscal year 1977–78. Since no documentation was available at the Office of Procurement to substantiate the need for these delegations, we could not verify them. Procurement personnel stated that when a delegation was first requested, a justification was submitted. However, through time these justifications have been lost and have not been required when delegations were renewed.

Guidelines Not Followed

Most of the delegated purchases for food items at Department of Corrections and Department of the Youth Authority camps were under the \$500 competitive purchasing requirement. In the five instances observed where purchases were made over the \$500 limit, there was no documentation that price solicitations were made or that the purchase was proprietary. In all instances, the personnel contacted during the review were unaware that this requirement pertained to them.

An Office of Procurement official stated that they plan to audit agencies given delegations; however, these audits have not yet started.

Coffee Specifications Need Revision

Bid specifications for recent contracts to purchase ground coffee are overly restrictive and may discourage some companies from bidding. Our survey of major coffee suppliers indicate that changes are needed in the State's present coffee specifications and packaging requirements.

Coffee blend requirements established by the Office of Procurement are overly restrictive when compared with the standards used by other states. California's standard blend (formulation) specification calls for green whole beans ground in the following proportion:

Brazilian beans	70% (by weight)
Columbian Excelso beans	30% (by weight)

Recently, California relaxed its requirements on a temporary basis allowing for full substitution of the Brazilian beans, which are presently in short supply.

Except for this temporary adjustment, however, California specifications are more rigid than those of other states. The State of Washington, for example, specifies a desired blend, but also accepts "major brands of equal quality." In Arizona, the Division of Purchasing also permits companies to bid major brands.

Information furnished by vendors responding to our survey indicates that due to California's blend requirements, some firms are unable to bid on state coffee contracts. This limits the amount of competition obtained.

California's packaging requirements could be excessive and could add unnecessarily to purchase costs, according to three firms and purchasing departments in three other states. Presently, California requires coffee to be packed in either two-pound or twenty-pound tin containers. The twenty-pound requirement is apparently no longer a standard pack size in the industry and is more costly to produce. Procurement officials in Washington, Oregon and Arizona have advised us that their purchasing departments either specify or permit other sizes of packaging. The State of Washington, which normally requires a twenty-pound tin size, cited a savings of over \$10,000 by accepting a bidder's alternate to supply coffee in three-pound tins. Major coffee vendors state that the California packaging requirements are another reason why they do not bid on state coffee contracts.

Produce Specifications and Inspection Requirements

Produce Specifications

Our review disclosed that the State's produce specifications for selected items needed revision. Some of the package sizes specified by California were no longer common in the industry, and some of the specifications needed to be more specific regarding sizes and descriptions.

Produce Inspections

In most cases, the State requires that a certificate of inspection from an authorized agency accompany each produce delivery. This inspection assures the State that the items being delivered conform to state specification. However, a review of these inspection certificates at state institutions showed that over 25 percent of the deliveries examined had one or more items which did not meet state specifications. The main reason for this was that the vendors were delivering subject to the institution's acceptance. Institutions usually accepted the produce since in most instances it was immediately needed for meals.

Since our review of the two areas mentioned above, the Office of Procurement has revised both the produce specifications and the produce bid terms which should correct these problems.

CONCLUSION

Present procurement methods and specifications used by the Office of Procurement do not enable the State to obtain food in the most cost-effective manner. For example, by using the booking bid the State is paying higher prices for canned fruits and vegetables even though the majority of companies contacted stated that this method of purchasing provides no greater assurance of supply. Further, the Office of Procurement has inadequately justified delegations of purchasing authority to other agencies.

RECOMMENDATIONS

We recommend that the Office of Procurement:

- Purchase canned goods in July or August rather than in January or February to obtain lower bid prices
- Work with the State Food Task Force in developing procedures to enable the State to exercise greater flexibility in obtaining canned goods when desired products are in short supply
- Require suppliers to pass on to the State any temporary trade allowances or discounts offered to other customers purchasing canned goods
- Revise delivery requirements for canned goods to allow the State the opportunity to take early delivery of items offered at discounted prices
- Identify competitive food items on price schedules and the yearly dollar amount spent for each item identified (excluding those items supplied by Correctional Industries). Once these items have been identified, either a specification or an acceptable brands list should be established for each item. This program should commence with those items with high dollar expenditures.

- Require annual written justifications from each agency before departmental delegations are given or renewed
- Periodically review those agencies with delegated purchasing authority to ensure that established guidelines are followed
- Review and revise the present coffee formulation specifications with the State Food Task Force to establish acceptable substitutions of equal quality, and revise current packaging requirements to allow for substitution of different size packs.

BENEFITS

Implementing the above recommendations would enable the Department of General Services to purchase food commodities in a more cost-effective manner and would ensure that proper documentation is kept when delegating its purchasing authority.

CHANGES NEEDED IN STATE
AGENCIES' FOOD PROGRAMS

The majority of the six state institutions that buy food through the Office of Procurement do not verify all food invoices to ensure that prices charged are in accordance with the provisions of the contract. As a result, vendors overcharged four state institutions by more than \$4,900 for approximately a one-and-a-half-year period. In addition, the state institutions are not taking full advantage of the Federal Donated Commodity Program which provides food commodities at substantially reduced prices.

Food Invoices Are Not Verified

Prices for some food contracts established by the Office of Procurement are based on two factors:

- A base price which is taken from a specified market news report, and
- A price differential which is established in the contract.

The combination of these two factors make up the price the vendor is to charge the State. The food commodities on these types of contracts include meat, chicken and eggs.

Section 8422.1 of the State Administrative Manual specifies that each agency is to determine that:

...invoices comply with provisions of purchase orders, sub-purchase orders, contracts, leases, service agreements and similar documents....

Four of the six state institutions reviewed did not verify all invoices pertaining to these contracts. Some institutions reviewed invoices only on a partial basis while others reviewed invoices only on certain commodities. Two of the institutions' accounting departments were not receiving the necessary market news reports for some commodities.

We found errors in pricing, both overcharges and undercharges, in all six institutions reviewed. While the total effect of these errors was not significant, the lack of verification has caused problems. In 1976 one state institution found that its egg supplier was charging it higher prices than those specified in the state contract. A review of each institution supplied by this vendor disclosed that four institutions were overcharged over \$4,900. The Office of Procurement took corrective action in this incident, and the State is being reimbursed by the vendor.

The institutions stated these invoices are not always verified because:

- Accounting departments lack sufficient staff to calculate the prices on these invoices
- Accounting departments do not receive copies of the market news reports
- Accounting personnel do not know how prices are to be determined.

However, a review of Stockton State Hospital's price verification system disclosed that very little extra time is needed to substantiate prices. Through their system, prices from the market news reports are recorded on a schedule as they are received. Once an invoice is received, only a cross-check is needed between the prices on the invoice and those already determined on the schedule.

State Institutions Are Not Taking
Full Advantage of the Federal
Donated Commodity Program

State institutions participating in the National School Lunch Program are also eligible to participate in the United States Department of Agriculture's (USDA) commodity program. The USDA provides food commodities through the Department of Education to public and private schools and institutions to supplement their feeding programs. This supplementation frequently enriches the feeding programs and enables institutions to buy additional foods.

We reviewed two state hospitals and three Department of the Youth Authority (CYA) institutions which are eligible to participate in the USDA commodity program. The two state hospitals accepted, in whole or on a partial basis, an average of only 22 percent of the donated commodities offered, while the three CYA institutions accepted an average of over 80 percent. One of the reasons for this wide range of acceptance is due to the fact that one of the state hospitals accepted no offerings for the period reviewed.

Although the Donated Commodity Program is not intended to reduce the basic ongoing food purchasing program, it does enable institutions to buy additional foods. Therefore, an institution can have a more cost-effective food program by using to the fullest extent possible the surplus commodities offered.

Examples of some of the commodities and prices offered include:

<u>Commodity</u>	<u>Unit Size</u>	<u>Unit Price</u>	<u>Fair Market Value/Unit*</u>
Butter, Print	36/1 lb.	\$2.20	\$31.47
Cheese, Cheddar	40 - 45 lb.	3.10	44.00
Beef, Ground, Frozen	55 lb.	3.00	42.90
Orange Juice, Concentrate, Frozen	5 gal.	1.50	19.66
Salad Oil, Peanut Oil	6/1 gal.	1.15	22.50

* Fair market value as identified by the State Educational Agency for Surplus Property.

One state institution, which accepted over 90 percent of the offerings reviewed, estimated that if these commodities were purchased on the open market they would have cost an additional \$40,000.

Reasons provided by institutions for not fully participating in the program included:

- Commodity descriptions on items offered are unclear
- Advance notice of when and what commodities are going to be offered is insufficient; therefore, commodity offerings conflict with the regular purchasing program.

Although these problems may be significant, some institutions are still able to accept over 80 percent of the USDA offerings. The Department of Education is presently working on programs which should correct these problems.

CONCLUSION

Presently, the overall cost-effectiveness of state institutional feeding programs is limited due to insufficient verification of food invoices and underutilization of federal surplus commodities.

RECOMMENDATIONS

We recommend that state agencies:

- Verify all invoices to assure that the State is being charged in accordance with provisions of the purchase contract
- Instruct each person who is to verify invoices of the procedures by which prices are to be established
- Take advantage of the Federal Donated Commodity Program to the fullest extent possible in accordance with federal and state guidelines.

BENEFITS

Implementing these recommendations would improve the cost-effectiveness of state agencies' food programs.

THE UNIVERSITY OF CALIFORNIA'S
FOOD PROCUREMENT PROCEDURES
NEED IMPROVEMENT

Some of the food procurement procedures used at three UC campuses are neither cost-effective nor in accordance with UC policy.

Areas identified include:

- Insufficient bid evaluations
- Price solicitations contrary to UC guidelines
- Multiple awards to other than low bidders
- Food commodities purchased from a sole source
- Price increases not substantiated by vendors.

Insufficient Bid Evaluations

One method used by UC to evaluate bids for food commodities may not always result in the selection of the actual low bidder. Each of the three campuses we reviewed awarded some food bids based on a summation of unit prices. This summation is done either by totaling the number of low unit prices per commodity for each vendor or by adding the unit prices per commodity for each vendor. The following illustrates how bids would be evaluated:

<u>Commodity</u>	<u>Unit</u>	<u>Vendor A</u>	<u>Vendor B</u>	<u>Vendor C</u>
Bean Sprouts	lb	\$0.17*	\$ 0.20	\$ 0.18
Lettuce	carton	3.90	3.50*	3.75
Tomatoes	flat	5.25	3.50*	6.50
Apples	carton	9.75*	13.50	13.00
Bananas	box	6.60	5.90*	6.70
Grapefruit	box	4.90	4.75	3.60*
Oranges	box	4.85	4.75	4.60*
Mushrooms	lb	.99*	1.05	1.15
Carrot Sticks	lb	<u>.30</u>	<u>.25*</u>	<u>.35</u>
Total Number of Low Bids		<u>3</u>	<u>4</u>	<u>2</u>

* Denotes lowest bid per item.

In this example, Vendor B has the greater number of low bid items and therefore would be awarded the total contract.

This method of evaluating bids does not ensure that the actual lowest bidder for bid "package" is awarded the contract. The reason is that this method is not weighted by usage figures, which have a significant impact on the total cost of a bid. Usage figures and prices quoted on a bid usually vary significantly among commodities. To illustrate using the example above, if 50 cartons of apples were purchased under the contract and only 10 boxes of bananas, Vendor A would actually be the lower overall bidder by more than \$180, and not Vendor B. Therefore, without usage figures to identify the total cost of a bid, a true evaluation cannot be made.

This method of evaluation could also enable vendors to manipulate their bids. Although we could not determine if this had been done, it could be accomplished by quoting low prices for low usage items and high prices for a few of the high usage items. This would enable a vendor to be awarded the contract even though he had a higher total bid.

Buyers at each of the UC campuses reviewed stated that usage figures are not known by the purchasing departments and, therefore, are not used in evaluating food bids.

This method of awarding contracts is inconsistent with UC policy which states that the purchase order will be awarded "to the supplier whose quotation is reasonable and offers the lowest cost consistent with the best interests of the University."

Price Solicitations Contrary
to UC Guidelines

At UC Berkeley the majority of food items are purchased through blanket orders by the food services department. These blanket orders are purchase agreements established with vendors by the purchasing department for various commodities at no set prices. The food services department then solicits prices from these vendors and makes awards on an as-needed basis.

According to UC Business and Finance Bulletin No. 10:

...a University of California request for quotation is a written request either by use of the standard request for quotation form, or a letter request from the material manager or his designee, or a request by telephone or telegraph from the material manager or his designee. (If the material manager's designee is anyone other than a member of his staff, approval of the Vice President-Administration is required.) (Emphasis added.)

Since the food services department is not part of the material manager's staff, approval from the UC Vice President of Administration is needed to solicit prices. The UC Berkeley material manager stated that this approval was never obtained.

Although no problems were identified in the manner in which the food services department solicited bids, problems were observed in the pricing charged by various vendors. In some instances a vendor would quote different prices to different feeding locations on campus for same-day-and-commodity shipments. The UC Berkeley buyer stated that vendors were supposed to charge each feeding location the same price.

UC Berkeley's food purchasing procedures state that the purchasing department is to review the food services' commissary files on a monthly basis. However, the purchasing department does little review to ensure that solicitations and awards are made in accordance with UC policy. The food services commissary had not been reviewed for

approximately five months. The resident halls and dining commons have submitted reports only twice a year; each report covered only a one-week period.

Multiple Awards to
Other Than Low Bidders

At the University of California, Los Angeles (UCLA), the majority of canned goods and staple groceries are purchased through monthly supply agreements. Awards on these agreements are made on an item-by-item basis at fixed prices. Each food service group is then provided a list of approved vendors which enables them to order specific items directly.

In some instances awards are made to more than one vendor for a particular commodity. As many as four vendors have been approved, even though in some instances the price difference between vendors ranged over \$1.00 per unit. For example, three bid awards were made for strawberry preserves which ranged from \$22.20 to \$29.19 per case.

UC Business and Finance Bulletin No. 43 states that the purchase order will be awarded:

...to the supplier whose quotation is reasonable and offers the lowest cost consistent with the best interests of the University.

Therefore, the manner in which UCLA is awarding these bids is inconsistent with UC policy.

UCLA procurement staff gave two main reasons for purchasing goods in this manner:

- At one time UCLA had experienced difficulties in obtaining a supply for selected items. Therefore, more than one vendor was selected so that an ample supply could be obtained
- Some food services personnel have specific preferences for certain items.

To determine whether these items were still in short supply, we reviewed selected items for which more than one vendor was awarded the contract. Three of UCLA's present suppliers were surveyed on the availability of these items. For all items selected, only an item from one vendor was in short supply. Further, in accordance with UC policy, food items should not be purchased from other than the low bidder because of personal preferences without sufficient justification.

Some Food Commodities
Purchased from a Sole Source

UC Business and Finance Bulletin No. 43 states that the material manager is responsible for ensuring that documentation for all purchases include a statement regarding the reasons for the award when awarded to other than the low bidder or when awarded on a sole source or no substitute basis. Some food commodities are purchased, however, without sufficient competition or justification.

Some of the items purchased on a sole source basis include soup, preserves, peanut butter and gelatins. Each of these items is competitive, and if they are to be purchased from a sole source there should be adequate justification in purchasing's files. An official of the UC Berkeley campus stated that there is no justification in the purchasing departments' files because these products were reviewed in the past and awards are still made based on these reviews.

Other sole source purchases were attributed largely to lack of competition. For example, one campus had only one bidder in 46 of the 57 bids reviewed for poultry, cheese, fish and frozen foods. Purchasing sole source without proper justification or adequate competition does not assure UC that it is obtaining the lowest price per its specification for an item.

Campuses have stated that they have been unable to locate additional sources to bid. However, other state institutions and school districts in the same general areas were able to obtain competition from several vendors for many of these items.

UC Supply Agreements

UC campuses purchase some food items through UC supply agreements. These agreements are university-wide orders with specific vendors in which UC does not guarantee the vendor that any definite quantities will be purchased. As of October 1977 there were eight food items on UC supply agreements, including items in the general categories of coffee, tea and cereal.

Although all but one of the supply agreements for food are awarded on an annual basis, prices for all of the agreements are fixed for periods only up to 90 days. Therefore after an award is made, a vendor can increase or decrease prices within a few days for some agreements. The UC has a clause in its request for quotation which states:

...the right is reserved by the University to cancel any resulting agreement at any time at the option of, and without penalty to, the University.

However, there is no clause which requires the vendor to submit documentation substantiating any price increase. Presently, UC verifies any price increases based on food index reports for the commodity increased. Therefore, the burden of proof for a price increase is not on the vendor but is assumed by UC.

We also noted no specification was used in the bid for coffee. This makes it unclear to each vendor bidding what quality of coffee UC wants. Potentially, each vendor could be bidding on different blends of coffee. The UC Berkeley buyer in charge of UC supply agreements stated that no specification was used because there is no established UC-wide coffee specification.

CONCLUSION

The UC campuses must change food procurement procedures to become more cost-effective and to comply with UC policies.

RECOMMENDATIONS

We recommend that:

- The purchasing department at each UC campus obtain usage data for all food items and utilize this data to evaluate bids
- UC Berkeley reevaluate its present food procurement procedures. If the present method of price solicitations is to be used, then approval should be obtained from the UC Vice President of Administration. If such approval is given, the purchasing department should conduct monthly reviews of the food services department to ensure that price solicitations and bid awards are made in accordance with UC policy

- UCLA make all bid awards to the lowest responsible vendor that meets UC specifications. If supplies from the lowest bidder are insufficient, then the award should be made to the second lowest bidder
- Each campus annually reevaluate food items presently purchased on a sole source basis to determine whether it is justified. If sufficient justification can be provided, then it should be filed by the purchasing department
- Campuses which primarily use one bidder on certain food commodities seek additional competition. Information on supplemental suppliers could be obtained from other UC campuses, the State Office of Procurement and other public entities in the area
- UC require vendors to submit documentation justifying any price increases made during the effective period of a UC supply agreement
- UC establish a campus-wide coffee specification for use in bidding UC supply agreements.

BENEFITS

Implementing the above recommendations would enable the University to establish a more efficient and cost-effective food procurement program.

SCHOOL DISTRICTS' FOOD PROCUREMENT
PROCEDURES NEED IMPROVEMENT

For fiscal year 1976–77, school districts and other entities in California spent an estimated \$96,800,000 in federal and state funds for food under the Federal and State Child Nutrition Programs.

Although school districts are responsible for expenditure and accountability of the funds, district level controls are insufficient to ensure the most effective use of these funds. Our review of school district food procurement practices indicates that:

- Purchasing methods used by various districts are deficient
- Additional guidelines concerning food procurement are needed
- Although cooperative purchasing programs have resulted in lower food prices for some school districts, this method has not been widely used.

Deficient Food Procurement Practices

We surveyed the food procurement practices of 111 school districts and identified several deficiencies. We made on-site visits to 11 districts to evaluate food procurement procedures and conducted a statewide survey to obtain additional information on food procurement practices from the remaining 100 districts.

Deficiencies observed during school district site visits include the use of sole source purchasing without considering competitive bidding, lack of written specifications, insufficient documentation regarding the evaluation and award of bids, and the absence of written food procurement procedures. These deficiencies indicate that additional controls and guidelines are necessary for more effective food purchasing programs.

Of the 11 districts visited, 6 districts, or 55 percent, purchased at least some food items from "sole source" suppliers. These districts presently obtain perishables and staples without seeking competition, even though neighboring districts purchase the same or similar items of comparable quality from other vendors. Although there may be justifiable reasons for purchasing sole source, in most instances we found no written justification at the district to substantiate this method of purchasing.

The U.S. Department of Agriculture, which provides substantial child nutrition financial assistance to school districts, recommends greater emphasis on competitive bidding and less use of sole source purchasing. The USDA, in its publication, "Food Purchasing Pointers for School Food Service," emphasizes that "Regardless of the (procurement) method used, two or more vendors should be contacted when making most food purchases to insure competitive bidding."

We also found that 7, or 64 percent, of the 11 school districts visited do not use written specifications when purchasing food. The absence of specifications denies districts assurance of receiving desired quality levels and prevents accurate competitive bid evaluation, as there are no standards for comparison. In addition, the use of specifications can result in overall lower food costs by enabling the buyer to shop comparatively, selecting alternate items of equal quality from among several vendors.

Additionally, we found that there is insufficient documentation of usage quantities or purchases made by the various school districts visited. For example, seven of the districts, or 64 percent, did not have sufficient data available to verify why some purchase awards were made to specific vendors. Copies of bids submitted by vendors to some districts were not available to evaluate the purchase award. Other school districts used oral price quotations and did not maintain records of those quotes. Nine of the 11 districts do not maintain records of the amounts of food consumed, and therefore, are unable to accurately estimate their yearly food requirements.

Food vendors contacted also affirmed the importance of school districts maintaining usage figures. Vendors stated that usage figures not only would provide information which would enable them to bid their lowest prices, but also would enable school districts to evaluate bids more efficiently and to purchase needed food items more economically.

Food Procurement Guidelines Needed

Contrary to California statutes, there were no written procedures for food procurement at the majority of school districts we visited. For example, only 4 of the 11 districts visited (36 percent) had written procedures, and only 22 of the 100 other districts surveyed had such procedures. While the districts may have written procedures for other types of purchasing, over three-fourths of the districts have none for food procurement.

Sections 54202 and 54204 of the California Government Code state that:

Every local agency shall adopt policies and procedures, including bidding regulations, governing purchases of supplies and equipment by the local agency....

If the local agency is other than a city, county, or city and county, the policies provided for in Section 54202 shall be adopted by means of a written rule or regulation, copies of which shall be available for public distribution.

The State Department of Education has established few guidelines regarding food procurement. Section 39873 of the Education Code states:

Perishable foodstuffs and seasonable commodities needed in the operation of cafeterias may be purchased by the school district in accordance with rules and regulations for such purchase adopted by the governing board of said district notwithstanding any provisions of this code in conflict with such rules and regulations.

Section 39640 of the Education Code requires the governing board of any school district to submit to competitive bidding any contract involving an expenditure of more than \$12,000 for materials or supplies. This would include all food commodities not classified as perishable foodstuffs or seasonal commodities.

The Federal Government has proposed food procurement standards to be mandated for all local school districts which receive various federal child nutrition program funds. The proposed federal regulations, issued January 13, 1978 would:

- Require all procurement transactions, regardless of whether negotiated or advertised and regardless of dollar value, to be conducted in a manner providing maximum open and free competition
- Require bid invitations or requests for proposals to be based upon clear and accurate descriptions
- Require school districts to purchase all food contracts over \$10,000 through competitive bidding procedures
- Prohibit the use of "cost-plus-a-percentage-of-cost" method of contracting.

Cooperative Purchasing

Our review of food procurement practices provided additional information concerning cooperative purchasing agreements. This information was obtained through (1) a statewide survey of 100 school districts, (2) on-site visits to 11 selected districts to evaluate food procurement practices, (3) a review of two groups of districts which are presently engaged in cooperative buying, one located in Los Angeles County and the other in Alameda County. The results of this review indicate that:

- Presently, the use of cooperative purchase agreements for food is not widespread among school districts
- Forty percent of the school districts surveyed were in favor of a cooperative food program
- Districts with cooperative purchase agreements have paid overall lower prices than nearby districts which buy on their own
- Potential benefits would be available to other districts if they formed cooperative purchase agreements.

Few Districts Surveyed Purchase Cooperatively

Only 5 of 100 districts surveyed stated that they are presently involved in cooperative food buying. Forty of the 100 districts indicated that they favored the concept of cooperative purchasing, while 15

expressed no opinion. Those favoring such agreements indicated a willingness to purchase on a joint basis if they could realize savings over present food costs.

However, 45 of the 100 districts surveyed were opposed to the concept. Reasons cited included (1) insufficient warehousing facilities to store large quantities, (2) geographic distances from nearest distribution points, (3) problems anticipated in coordination and in additional "paperwork," (4) results not expected to be cost-effective, and (5) loss of freedom of choice in selecting items for purchase and in menu planning. Although these districts have expressed opposition, other school districts have benefited through cooperative purchasing.

Benefits from Cooperative Purchase Agreements

Five school districts surveyed currently purchase food cooperatively. These districts are Arcata Elementary, Bellflower Unified, San Leandro Unified, Savanna Elementary and Torrance Unified. We made separate on-site reviews of two established groups of districts which purchase cooperatively: one in Alameda County and one in Los Angeles County. Both groups have paid lower food prices than districts which purchased independently.

The Los Angeles County group involves 12 "South Bay" school districts which purchase selected food items through a master bid invitation for each of the commodities purchased collectively. The districts estimate their annual needs and then pool their desired quantities in a combined bid to obtain lower prices through volume purchasing. Once an award is made, contracts are established with various vendors for the following items: fresh meat, frozen mexican foods, pizza products, potato products and bakery goods. Each school district is then able to order independently from each contract.

Districts in this program indicate that they pay lower prices than other nearby districts. We made unit price comparisons with neighboring districts outside of the cooperative group. The results indicated that the South Bay School districts paid lower prices for 19 of 21 price comparisons made. These districts paid an average of seven percent less than nearby districts for these items.

The organization in Alameda County has an arrangement whereby school districts and the County of Alameda purchase common food items through the Alameda County Stores. Districts may purchase canned goods and other staple food items, as well as non-food items. Districts furnish the county with estimates of annual quantities needed, and the county issues a combined bid invitation for all entities. Vendors deliver cooperatively purchased items to county warehouses. The items are then delivered as needed to various districts via county-owned

The U.S. General Accounting Office (GAO), in a recently issued report, "National School Lunch Program – Is It Working?," stated that a nationwide survey of school district food procurement costs indicated the smallest school districts (2,500 or fewer students) paid an average 17.8 percent higher prices than the largest districts (over 25,000 students). The GAO report concluded that consolidating food purchasing operations of small-to-medium school systems could reduce procurement costs through volume purchasing economies.

Although few of the districts surveyed are presently purchasing food cooperatively, cooperative purchasing has demonstrated savings. There is potential for some smaller districts to achieve savings by combining purchases, where feasible, with nearby school districts.

CONCLUSION

Although there is a wide variety of food procurement methods, there are no uniform, statewide standards to ensure the most efficient expenditure of state funds by school districts. Contrary to statutes, many districts lack written procedures for food procurement. In addition, many districts do not maintain sufficient documentation to justify basic food procurement transactions.

There is potential for some smaller districts to achieve savings by combining purchases, where feasible, with nearby districts. However, since cooperative purchasing may take on a variety of forms, each school district should evaluate this type of program on an individual basis.

RECOMMENDATION

We recommend that:

- The Department of Education develop advisory food procurement guidelines to be provided to school districts. Included in the guidelines should be standards for: maximizing open and competitive purchasing of food items and establishing adequate records to permit evaluation and audit of district food purchasing transactions
- Individual school districts review the potential for achieving economy through cooperative purchasing.

BENEFITS

Implementing the above recommendations would help ensure that state funds are being spent efficiently and would also provide guidelines to enable school districts to purchase food more effectively.

OTHER PERTINENT INFORMATION

Department of General Services

Problems to be Corrected by
Statewide Logistics and Materials
Management System

The Office of Procurement's food purchasing effectiveness is presently limited by several problems:

- (1) Low vendor response rate to bid invitations
- (2) Insufficient management information to identify quantities of items purchased or dollar amounts expended per commodity
- (3) Lack of complete monitoring of vendor performance.

Agency staff advised us that the computer-based Statewide Logistics and Materials Management (SLAMM) system is being implemented to correct these and related problems.

SLAMM is designed to assist the Department of General Services in performing several major functions. The system consists of two major segments, each including several phases. "SLAMM 1" includes Phases I-VII and concerns procurement-related activities; "SLAMM 2"

includes Phases VII–IX and is the inventory and fiscal management section. Office of Procurement staff responsible for implementing SLAMM indicate that SLAMM 1 is expected to be completed during June 1978.

Presently, the Office of Procurement is experiencing a low bidders' response rate, due partially to (1) inaccurate bid lists and (2) the failure to purge lists of companies which do not respond to three consecutive bid invitations. SLAMM 1 is expected to correct these deficiencies by tracking nonresponses, generating "notices of intent to remove vendors" from bidders lists and enabling staff to continuously update bid lists.

SLAMM should also correct the present lack of sufficient data to track dollar amounts expended per commodity or to identify total quantities of items purchased. Presently, the Office of Procurement must rely on vendors to report agency purchases against contracts. SLAMM 1 will capture contract consumption data and will track quantities purchased and amounts expended for all major types of purchase documents (e.g., purchase estimates, contracts, and special delegations).

The third problem is the lack of complete monitoring of vendor performance. Information on vendor performance is presently filed manually either in quality control or purchasing sections of the Office of Procurement. The information is not completely centralized, and vendor

performance is in many instances not reported by various state agencies. SLAMM 1 will centralize vendor and product performance data and will enable Office of Procurement staff to evaluate timeliness of delivery and quality of goods received.

These problems have persisted within the Office of Procurement for several years, and that agency has been relying on SLAMM to correct them. In response to our February 1975 review of Office of Procurement operations, the Director of General Services indicated that "...portions of SLAMM, (then) not yet funded, will monitor vendor response, remove nonresponsive vendors from the prequalification list and accumulate data relative to purchases of specific commodities by state agencies."

Agency staff recently advised us that the Office of Procurement will have these problems corrected when SLAMM 1 becomes fully operational by June 1978.

University of California

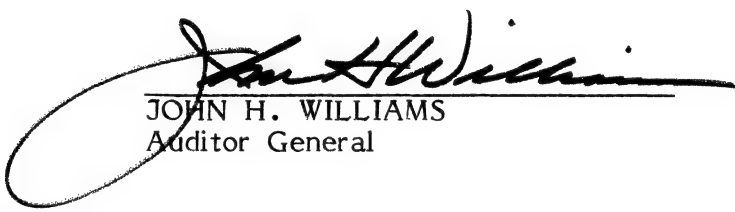
UC Pool Purchases

Pool purchases are university-wide orders from specified vendors for definite quantities or guaranteed minimum quantities at firm prices for stated periods. These purchases are made on a regularly scheduled basis, usually once or more a year. Campuses then issue orders calling for specific deliveries of pool purchase items.

Presently, there are no food items on UC pool purchase agreements. However, a comparison between state contract prices and UC prices indicates that pool purchasing of some food items may be economically beneficial. To evaluate whether a pool purchasing program would be beneficial, UC should obtain a list of major food items purchased at each campus, including usage figures, prices and specifications for each item. This information would help UC evaluate what items are more adaptable for a pool agreement.

UC Berkeley, which is responsible for UC-wide food agreements, has recently established a food advisory committee. This committee is presently reviewing whether additional food items could be placed on either supply or pool purchase agreements to economically benefit the University.

Respectfully submitted,



JOHN H. WILLIAMS
Auditor General

Date: March 31, 1978

Staff: Kurt R. Sjoberg, Audit Manager
Dennis L. Sequeira
Ronald R. Franceschi
Allison G. Sprader

Memorandum

Date : March 29, 1978

To : Mr. John H. Williams, Auditor General
Joint Legislative Audit Committee
Office of the Auditor General
925 L Street, Suite 750
Sacramento, CA 95814

From : Department of Corrections, Sacramento 95814

Subject: Report 719 - State Food Procurement Practices

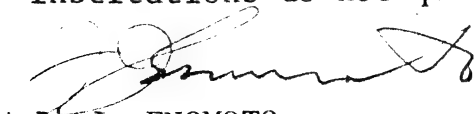
We appreciate this opportunity to review the findings contained in the draft report of the Auditor General covering State Food Procurement Practices.

On Page 19, the report indicates that the established guidelines are not being followed in observing the \$500 limit on delegated purchases. Since this factor had been pointed out to us, a bulletin was prepared by the Sierra Conservation Center staff and distributed to all of the delegated purchase users advising them of the restrictions placed on purchases made under this delegation.

On Page 22, the report indicates that produce was being accepted that did not meet the State's quality control requirements. As your report indicates the Office of Procurement has revised the produce specifications and the bid terms, it appears this will correct the previous problems that were being compensated for in accepting produce that did not meet the established quality standards.

On Page 25, the report indicates that in some cases food invoices are not being properly verified. We have advised all of our Food Managers to make certain that when invoices are to be verified from a specified market news report that such reports are promptly subscribed to and made available both to them and the accounting office personnel.

Page 27 of the report indicates that State institutions are not taking full advantage of the federal donated commodity program. Under current eligibility requirements, the adult Corrections institutions do not qualify for participation in this program.


J. J. ENOMOTO
Director of Corrections



STATE OF CALIFORNIA
DEPARTMENT OF EDUCATION

STATE EDUCATION BUILDING, 721 CAPITOL MALL, SACRAMENTO 95814

March 29, 1978

John H. Williams
Auditor General
Joint Legislative Audit Committee
California Legislature
925 L Street, Suite 750
Sacramento, California 95814

RE: Report to Joint Legislative Audit Committee Regarding
State Food Procurement Practices

Dear Mr. Williams:

The Department of Education received a copy of the above report on March 27, 1978. You requested our comments to be submitted by March 30, 1978.

On page 30 you recommend, "that state agencies take advantage of the Federal Donated Commodity Program to the fullest extent possible in accordance with federal and state guidelines." The Department of Education's State Agency for Surplus Property is working with the Western Regional Office of the United States Department of Agriculture to correct the deficiencies noted on page 29 to improve:

- Commodity descriptions of items offered.
- Advance notice of when and what commodities are going to be offered.

During the 1978-79 fiscal year commodity descriptions will be more clearly stated and greater advance notice on commodities to be offered will be provided. This procedure is dependent upon notice of availability by the United States Department of Agriculture. Notice of availability of national surpluses is not always predictable.

On page 51 you recommend, "that the Department of Education develop advisory food procurement guidelines to be provided to school districts." The Department of Education, Bureau of Child

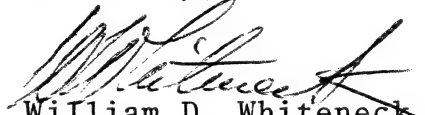
March 29, 1978

Nutrition Services is developing guidelines and anticipates such guidelines available to the school districts during the 1978-79 fiscal year. A significant aspect of the procurement guidelines is the establishment of specifications. It is in this area that the Bureau of Child Nutrition Services has concentrated its efforts. The Department of Education will develop guidelines for school districts to maximize open competitive purchase of food items and to establish adequate records to permit evaluation and audit of school district food purchasing transactions.

The Department of Education has further addressed its intent to expand involvement in food purchasing by identifying technical assistance to school districts as a major objective in its State Plan for Management of Child Nutrition Programs, 1978-79.

The Department of Education as noted above is already working toward achieving greater utilization of donated commodities by all eligible agencies and has already initiated efforts to assist school districts in achieving more effective food purchasing procedures.

Sincerely,

A handwritten signature in dark ink, appearing to read 'W. Whiteneck', written over a horizontal line.

William D. Whiteneck
Deputy Superintendent for
Administration
(916) 445-8950

WDW:SD:ce

Memorandum

To : John H. Williams
Auditor General
Office of the Auditor General
925 L Street, Suite 750
Sacramento, CA 95814

Date : March 30, 1978

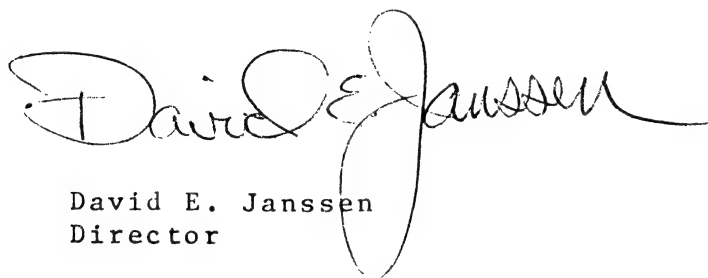
File No.:

From : Department of General Services

Subject:

In your March 27, 1978 report on your review of the Department of General Services' food procurement program, your staff has made eight specific recommendations for improvement of the Office of Procurement's acquisition methods. I have reviewed these recommendations with the staff of the Office of Procurement. They advise me that all of these recommendations are constructive and within our ability to implement. The Office of Procurement staff also indicates that, when these recommendations are implemented, the improvements and increase in cost effectiveness anticipated by your staff should be relatively easily measured.

I have included with this letter a short discussion of our preliminary implementation plan for these recommendations. We will be happy to discuss your March 27, 1978 report at your earliest convenience.



David E. Janssen
Director

Attachment

Implementation Plan for Recommended Actions

Auditor General's Draft Report 719 - March, 1978

"State Food Procurement Practices"

On page 23-24 of this draft report eight recommendations are made for specific action to improve State food procurement practices within the Department of General Services, Office of Procurement. The Department of General Services finds that these recommendations are constructive and present opportunities to improve both food procurement cost-effectiveness and supporting documentation.

Based on our review of this draft, we have developed the following preliminary plan for implementation of these recommendations.

1. Purchase canned goods in July or August rather in January or February to obtain lower bid prices.

The State initiated the practice of "booking" its requirements for canned foods in 1972 after several years of extensive procurement problems due to crop shortages. In 1972, an extensive market survey indicated a period of at least three more years of such shortages and the State was, at that time, uniformly advised by suppliers that a change from quarterly purchasing to booking bid was the only feasible course for the State. This booking bid program was thoroughly reviewed by Dept. of General Services internal audit staff after the first three years of operation and was found, in April 1976, to still be a cost effective procedure.

The canned goods required by the State represent approximately \$1.5 million of the State's \$26 million annual food purchases. These products are packed through a period extending from April to November of each year. The practice of "booking" the State's requirements (contracting well in advance of harvest) will be discontinued. A series of four bid solicitations at approximately two month intervals and timed to coincide with the completion of the various product packs will be initiated. It appears that four separate purchases in May, July, September, and November will make it possible for the State to efficiently purchase at a point in time which maximizes our ability to assure continuity of supply at the most favorable product cost.

Regrettably, the rather complex processes of canned foods purchasing in relation to stocks on-hand or on-order in the two Department of General Services and over 40 individual institution warehouses are already sufficiently advanced for the 1978 pack year that we do not believe it advisable to make such a major change in our processes during 1978. The above bidding plan will, therefore, be implemented beginning May 1979.

2. Work with the State Food Task Force in developing procedures to enable the State to exercise greater flexibility in obtaining canned goods when desired products are in short supply.

The above plan to bid canned foods later in the season, after the pack is "in the can" will, as a by-product, bring the process of accumulating the estimated annual canned foods needs of the State closer in time to that period at which the existence of crop shortages are known. This should ease the institution food planning problems which occur when staple items are in short supply since these shortages will be foreseen, to larger extent, prior to the time each institution submits its needs to the Office of Procurement. Adjustments in bid quantities can then be made which take into account individual crop shortages.

While the impact on food planning of the individual crop shortages will be lessened, the scale and variety of the State feeding activities is such that spot shortages will continue to disrupt the quarterly planning of individual institutions. It is important to realize that each of the facilities participating in the canned food purchase is more or less unique in its feeding problems. Differences in the age, sex and ethnic make-up of the inmates, the preparation and serving limitations created by the physical and mental condition of the inmates, security or other physical plant factors and other variables create special food preparation problems. Programs ranging from maximum security prisons to schools for deaf children and from highly restricted mental patient environments to forestry camps participate in this program.

This great range of feeding environments nearly eliminates the possibility of any uniform response to spot crop shortages. The State Food Task Force represents less than one-third of these programs and contains no representation from some of smaller and more specialized programs. It, therefore, is not an effective mechanism for dealing with time-critical food acquisition problems. We will continue to turn to this group for flexible criteria on acceptable grades and packs (i.e. whole vs. sliced) and in predetermining acceptable product substitutes (i.e. peaches vs. apricots).

Most shortage problems, however, will continue to require the Office of Procurement to deal closely with individual programs to meet such planning problems.

3. Require suppliers to pass on to the State any temporary trade allowances or discounts offered to other customers purchasing canned goods.

The Office of Procurement will amend the terms of its bid invitations to clarify the obligation of each contract holder to pass on any price reduction which is being generally offered to other customers. Language similar to that cited on page 15 of the draft report will be included in canned goods contracts.

This is, of course, a rather difficult matter to accurately monitor. The Office of Procurement will, nonetheless, specifically research additional methods to assure compliance with such contract provisions and implement any additional protective procedures which appear workable to assure the State receives the cost benefit of any such price reduction during the term of the contract.

4. Revise delivery requirements for canned goods to allow the State the opportunity to take early delivery of items offered at discounted prices.

The Office of Procurement will include language in future canned foods bid invitations encouraging suppliers to offer, in their bid responses, provisions for early or consolidated discounts. We must caution, however, that two factors limit the State in such situations. First, the State specifies the rate at which it can and will accept delivery of products relative to both its cash flow limitations and its physical storage capability. It is generally agreed that the average cost of storing and distributing canned goods is about 1%-2% of cost of goods per month. It is clear that, while a discount offered for early or consolidated delivery may lower the initial unit price, regulating the flow of materials through "split" deliveries lowers the State's cost of ownership and permits us to pay our bills (due at time of delivery) without over-extending our cash position.

Secondly, a discount offered after the award of a contract which involves a substantive change in the delivery requirements contained in the bid invitation may constitute the type of post-award "negotiation" which is proscribed under State purchasing law. This means, in simple terms, that the State must request in its bid invitations (and the bidder must offer at the time of bid response) such early or consolidated delivery discounts to assure that all potential bidders have an equal opportunity to quote such a discount. Unless a part of the initial contract, the State could not accept consolidated or early delivery discounts.

5. Identify competitive food items on price schedules and the yearly dollar amount spent for each item identified (excluding those items supplied by Correctional Industries). Once these items have been identified, either a specification or an acceptable brands list should be established for each item. This program should commence with these items with high dollar expenditures.

State Price Schedules are under continuing review and revision and intended to include only non-competitive products. Because of changes in the market and in institution feeding program needs, some products now included on State Price Schedules may, in fact, have become competitively available. To remedy this situation, the Office of Procurement presented a plan to the State Food Task Force on March 15, 1978 to identify and eliminate competitive food items currently maintained on SPS's. As a result of that meeting, the Food Task Force appointed a subcommittee to assist the Office of Procurement in:

- a. Identifying those competitive food items now on SPS's which are used in sufficient volume to warrant central purchasing. Once product specifications or acceptable brands lists are completed, such items can then be purchased competitively by the Office of Procurement.
- b. Identifying those competitive food items which are used in smaller quantities. Such items can then be purchased under a carefully audited delegated purchases program.

In 1975 and 1976, the Office of Procurement undertook a major review of all food related State price schedules with the active cooperation of institutional food management. At that time, a number of products were found to have become inappropriate for non-competitive purchasing and were deleted from these schedules. Because of the somewhat specialized nature of most products covered by State price schedules, they are subject to considerable market and use change during periods of one to two years.

6. Require annual written justifications from each agency before departmental delegations are given or renewed.

State agencies with delegated purchasing authority have been advised that, before any departmental delegations are renewed, the need for such delegation must be justified in writing to the Office of Procurement. This same procedure will be followed whenever a new delegation is requested. Some justifications already received have been inadequate and have been returned to the State agency with additional guidelines for the agency to consider in preparing a justification. Once a delegation is approved, each agency will be required to obtain maximum feasible competition, regardless of dollar volume of the purchase.

The primary post-audit tool for delegated purchase is Phase VII of the Office of Procurement's newly operative SLAMM data system. This system is now operative and will provide the Office of Procurement with monitoring data necessary to assure proper use of delegations.

7. Periodically review those agencies with delegated purchase authority to ensure that established guidelines are followed.

In April, 1978, the Office of Procurement will begin a field audit of all State agencies with current delegated purchasing authority. Audits will be performed prior to renewal of the delegation, although, in some cases, it may be necessary to grant an agency a brief extension until a review can be completed. All terms of the delegation will be discussed with the agency during the audit with particular attention given to the existing competitive requirement for purchases over \$500.

8. Review and revise the present coffee formulation specifications with the State Food Task Force to establish acceptable substitutions of equal quality, and revise current packaging requirements to allow for substitution of different size packs.

During recent months, the Office of Procurement has made several experimental quarterly coffee purchases using interim specifications for coffee blends which permit a much wider range of acceptable formulations. This investigative project will be completed by July 1, 1978. It is anticipated that the formal State coffee specifications will be revised, based on information developed by this project, to permit a more competitively available range of formulations.

The State currently purchases about 60% of its coffee in 20 lb tins and 40% in smaller containers. Those feeding environments which currently request 20 lb tins are primarily security facilities in which the larger tins are instrumental in reducing pilferage and are substantially more efficient in bulk coffee preparation.

The Office of Procurement has no evidence to suggest that 20 lb tins are generally unavailable as a commercial pack or that any premium is currently being paid for this larger pack. Recent purchases of both 20 lb and smaller containers show the per pound cost is either substantially the same or is slightly lower for the 20 lb tin.

The Office of Procurement anticipates that, as a result of the investigative project described above, State specifications will be broadened to accept bulk packs from 15 lb to 30 lbs.

DEPARTMENT OF HEALTH

714-744 P STREET

SACRAMENTO, CALIFORNIA 95814

916/445-1248



March 29, 1978

John H. Williams
Auditor General
California Legislature
925 L Street, Suite 750
Sacramento, CA 95814

Dear Mr. Williams:

Thank you for the opportunity to comment on the Joint Legislative Audit Committee's report, "State Food Procurement Practices." We are in agreement that areas identified in the report pertaining to state agencies should be corrected.

The report makes three recommendations related to state hospitals:

- 1) that state agencies verify all invoices to assure that the State is being charged in accordance with provisions of the purchase contract.
- 2) instruct each person who is to verify invoices of the procedures by which prices are to be established.


The state hospitals do verify food invoices; however, the identified error rate indicates that additional training in the procedures by which prices are determined is needed. Training will be provided to correct this deficiency.

- 3) that state agencies take advantage of the Federal Donated Commodity Program to the fullest extent possible in accordance with federal and state guidelines.

Hospitals will be encouraged to participate in the Commodity Program to the extent that offered commodities are compatible with menu demands, inventories and prior purchase commitments.

I want to commend you and your staff for a very thorough and professional job.

Sincerely,

for 
Jerome A. Lackner, M.D.
Director of Health

UNIVERSITY OF CALIFORNIA SYSTEMWIDE ADMINISTRATION

BERKELEY • DAVIS • IRVINE • LOS ANGELES • RIVERSIDE • SAN DIEGO • SAN FRANCISCO



SANTA BARBARA • SANTA CRUZ

Office of the President

BERKELEY, CALIFORNIA 94720

March 30, 1978

Mr. John H. Williams, Auditor General
Joint Legislative Audit Committee
925 "L" Street, Suite 750
Sacramento, California 95814

Dear Mr. Williams:

In reply to your letter of March 27, I am forwarding a staff analysis, in which I concur, of the audit findings and recommendations resulting from your review of food procurement practices at the University.

The findings indicate that some improvements in our practices are needed. Many of these improvements have, in fact, already been made. Others are being developed.

I regret that a more comprehensive response could not be made within the limited time available. As we proceed with our review, therefore, we may wish to amplify our response.

Sincerely,

A handwritten signature in cursive script, appearing to read "David S. Saxon".

David S. Saxon
President

Attachment

cc: Special Assistant Lowell J. Paige

ANALYSIS OF DRAFT REPORT OF THE OFFICE
OF THE AUDITOR GENERAL ON
STATE FOOD PROCUREMENT PRACTICES

Following is an analysis of the audit results and recommendations pertaining to the University of California as set forth in the Auditor General's draft report on state food procurement practices.

Recommendations

1. The purchasing department at each UC campus obtain usage data for all food items and utilize this data to evaluate bids
2. UC Berkeley reevaluate its present food procurement procedures. If the present method of price solicitations is to be used, then approval should be obtained from the UC Vice President of Administration. If such approval is given, the purchasing department should conduct monthly reviews of the food services department to ensure that price solicitations and bid awards are made in accordance with UC policy
3. UCLA make all bid awards to the lowest responsible vendor that meets UC specifications. If supplies from the lowest bidder are insufficient, then the award should be made to the second lowest bidder
4. Each campus annually reevaluate food items presently purchased on a sole source basis to determine whether it is justified. If sufficient justification can be provided, then it should be filed by the purchasing department
5. Campuses which primarily use one bidder on certain good commodities seek addition competition. Information on supplemental suppliers could be obtained from other UC campuses, the State Office of Procurement and other public entities in the area
6. UC require vendors to submit documentation justifying any price increases made during the effective period of a UC supply agreement
7. UC establish a campus-wide coffee specification for use in bidding UC supply agreements.

University Response

Riverside concurs and has in place procedures for recommendations 1, 4 and 5, which are the only recommendations affecting Riverside. UCLA concurs and has in place procedures for recommendations 1, 4, 5 and will develop procedures to implement recommendation number 3 which pertains only to UCLA. Berkeley concurs with the

intent of recommendation 1 through 5 but is reviewing them to determine how they are to be implemented.

These recommendations will also be reviewed with other campuses not covered in the audit to determine to what extent it may be appropriate to implement at these locations.

Recommendations 6 and 7 pertain to the Systemwide Planned Purchasing Program and will be implemented.

General Observations

1. The UCLA Materiel Manager advised that the "Inefficient Bid Evaluations" section, pp. 32 and 33, did not pertain. UCLA is using usage data and unit prices, and contracts are awarded consistent with University policy. The problem pointed out in the audit does exist at Berkeley.
2. The figures stated on page 35, \$22.20 to \$29.19 per case, seem to be inaccurate. UCLA feels the differences should be closer to 90¢ per case rather than \$6.99 per case.
3. The term "short supply" is used on page 36 as the justification for multiple awards for the same product when one award may have been appropriate. A clarification of what is meant by "short supply" would be of assistance in correcting procedural deficiencies.
4. In some sections of the audit report, as on page 37, general statements are made concerning the University's procurement practices without reference to specific campuses. Rather than grouping campuses, it would be of assistance in correcting procedural errors if specific campuses were identified.

DEPARTMENT OF YOUTH AUTHORITY

4241 Williamsborough Drive
Sacramento, California 95823



March 30, 1978

Mr. John H. Williams
Auditor General
Joint Legislative Audit Committee
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Williams:

The Youth Authority appreciates the opportunity to respond to the draft of your audit report on state food procurement practices. This Department is only briefly mentioned in a few sections of the report. We are in agreement that the three items listed pertinent to the Youth Authority should be corrected.

1. The audit report states that in five instances in Corrections and Youth Authority camps delegated purchases in amounts exceeding \$500 were made without any evidence of price solicitation or documentation that the purchase was proprietary. (P. 19)

All staff who are responsible for making purchases under delegation from the Office of Procurement will be instructed in the proper procedures.

2. Verify all invoices to assure that the State is being charged in accordance with provisions of the purchase contract. Instruct each person who is to verify invoices of the procedures by which prices are to be established. (P. 30)

This recommendation will be reviewed with accounting personnel who are responsible for this verification and instructions will be provided so that all personnel will understand how to determine prices from the contract and market news reports. All facilities will also be given data necessary to obtain the appropriate market news reports.

3. Take advantage of the Federal Donated Commodity Program to the fullest extent possible in accordance with federal and state guidelines. (P. 30)

Page 2
John H. Williams
March 30, 1978

As stated in the report, all Youth Authority facilities are ordering substantial amounts of donated commodities. Often, the full quantity allowed is not ordered because prior orders were delivered late and storage space is limited; however, as the draft report indicates, Youth Authority facilities utilize 80 percent of the variety of commodities offered. The Department has always encouraged full use of these commodities and makes good use of this resource.

Sincerely,

A handwritten signature in cursive script, appearing to read "Pearl S. West". The signature is written in dark ink and is positioned below the word "Sincerely,".

Pearl S. West, Director

Office of the Auditor General

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps